THABACHWEU LOCAL MUNICIPALITY

VIREMENT

Policy

The Thaba Chweu Municipality policies are statements of principles and practices dealing with the on-going management and administration of the Municipality's budget. These policies act as a guiding frame of reference for how the Municipality deals with everything from its day- to-day IT operational and support procedures to comply with security regulations and codes of practice. This "statement of purpose" will guide the actions to be taken to achieve that purpose.

Document Reference

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Change Record			
Version	**Date**	**Name**	**Reference**
1.1			Add client information
1.2			Final changes to client information

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1. Introduction

Webster's New Millennium Dictionary of English defines " Virement" "as a regulated transfer or re-allocation of money from one account to another, especially public funds"
A Virement represent a flexible mechanism to effect budgetary amendments within a municipal financial year.
Changing circumstances and priorities during a financial period may give rise to a need to virement (transfer) funds within or between approved Votes, as defined in the Municipal Finance Management Act 56 of 2003 (MFMA). The treatment of such instances may, however, be dependent on whether an adjustment budget is required or not.

2. Purpose

The Chief Financial Officer has a statutory duty to ensure that adequate policies and procedures are in place to ensure an effective system of financial control. A municipality's virement policy and its underlying administrative process within the system of delegations is one of those controls.

Section 81(1)(d) of the MFMA states *inter alia* that " The Chief Financial Officer of a municipality - … must advise senior managers and other senior officials in the exercise of powers and duties assigned to them in terms of section 78 or delegated to them in terms of section 79;…"

It is the responsibility of each Executive Director of each Directorate to which funds are allocated, to plan and conduct assigned operations so as not expend more funds than budgeted and to ensure that funds are utilised effectively and efficiently.

Section 78(1)(b) of the MFMA states *inter alia that* " each senior manager of a municipality and each official of a municipality exercising financial management responsibility must take all reasonable steps within their respective areas of responsibility to ensure- ….(b) that the financial and other resources of the municipality are utilised effectively, efficiently, economically and transparently;…

This policy aims to provide guidelines to senior management in the use of virements as a mechanism in their day to day management of their budgets. In addition the policy specifically aims to empower senior managers with an efficient financial – and budgetary system to ensure optimum service delivery within the current legislative framework of the MFMA and the municipality's system of delegations.

3. Definitions

3.1. Accounting Officer (MFMA)

"- (a) in relation to a municipality, means the municipal officials referred to in section 60; or…"

3.2. Approved Budget (MFMA)

"- Means an annual Budget-

(a) Approved by a municipal council; or

(b) Approved by a provincial or the national executive following an intervention in terms of section 139 of the Constitution, and includes such an annual budget as revised by an adjustment budget in terms of section 28;"

3.3. Capital Budget

This is the estimated amount for capital items in a given fiscal period. Capital items are fixed assets such as facilities and equipment, the cost of which is normally written off over a number of fiscal periods.

3.4. Chief Financial Officer

"a person designated in terms of section 80 (2) (a)

3.5. Council (MSA)

Means the council of a municipality referred to s18 of the Municipal Structures Act.

3.6. Financial Year

The 12 month period between 1 July and 30 June

3.7. Line Item

An appropriation that is itemized on a separate line in a budget adopted with the idea of greater control over expenditure

3.8. Service delivery and budget Implementation Plan (MFMA)

Means a detailed plan approved by the mayor of a municipality in terms of section 53(1) *(c) (ii)* for implementing the municipality's delivery of municipal services and its annual budget

3.9. Vote (MFMA)

(a) One of the main segments into which a budget of a municipality is divided for the appropriation of money for the different departments or functional areas of the Municipality; and

(b) Which specifies the total amount that is appropriated for the purpose of the department or functional areas concerned.

3.10. Virement

The process of transferring an approved budgetary provision from one operating cost element or capital project to another within a vote during a municipal financial year and which results from changed circumstances from that which prevails at the time of the previous budget adoption.

4. MFMA regulation on Budget Versus Expenditure

The MFMA regulates as follows regarding the incurring of expenditure against budgetary provisions

Section 15 – Appropriation of funds for expenditure

"A municipality may, except where otherwise provided in this act, incur expenditure only –

(a) In terms of an approved budget; and
(b) Within the limit of the amounts appropriated for the different votes in an approved budget"

Unauthorised Expenditure (MFMA Definition)

"In relation to a municipality, means any expenditure incurred by a municipality otherwise than in accordance with section 15 or 11 (3), and includes –

(a) Overspending of the total amount appropriated in the municipality's approved budget
(b) Overspending of the total amount appropriated for a vote in the approved budget;
(c) Expenditure from a vote unrelated to the specific department or functional area covered by the vote;
(d) Expenditure of money appropriated for a specific purpose, otherwise than for the specific purpose;
(e) Spending of an allocation referred to in paragraph (b), (c) or (d) of the definition of allocation otherwise than in accordance with any conditions of the allocation; or
(f) A grant by the municipality otherwise than in accordance with this Act"

5. Virements requirements

5.1 The Virement process represents the major mechanism to align and take corrective (financial/budgetary) action within a directorate during a financial year.

5.2 In order for a "Vote" (Directorate) to transfer funds from one cost element or capital project to another cost element or capital project, a saving has to be identified within the monetary limitations of the approved cost element or capital project allocations on the respective budgets.

5.3 Sufficient, (non-committed) budgetary provision should be available within the giving vote's cost element or project concerned to give effect to the budgetary transfer (Virement). In Addition, the transferring function must clearly indicate to which cost element or capital project the budget provision will be transferred to and provide a clear motivation for the transfer.

5.4 Any budgetary amendment of which the net impact will be a change to the total approved annual budget allocation and any other amendments not covered in this policy are to be considered for budgetary adoption via an adjustment budget (per MFMA section 28)

5.5 In terms of section 17 of the MFMA a municipality's budget is divided into an operating and capital budget and consequently no virements are permitted between operating and capital budget.

5.6 Virements between Trading- and Rate funded functions are not allowed, due to the differing impact on respective tariff- or Rate –bone services' budget, unless adopted via adjustment budget (per MFMA section 28).

6. Virements Restrictions

6.1. The Chief financial officer has the authority to limit the number of virements requested at any given period

6.2. Any virement between R 0.00 to R 30 000.00 must be referred to the Manager Budget and Treasury for approval, any Virements of R 30 001.00 to R 500 000.00 per case must be referred to the Deputy Chief Financial Officer for approval. Virements above R 500 001.00 must be referred to the Chief financial Officer for approval under his/her limitation of R 1 000 000.00 per case and any virements above R 1 000 001.00 must be referred to the Accounting Officer for approval under his/her limitation of R 2 000 000.00. Any virements above that must be referred to Council for approval.

6.3. A virement may not create new policy, significantly vary current policy, or alter the approved outcomes / outputs as approved in the IDP for the current or subsequent years. (Section 19 and 21 of MFMA)

6.4. No Virement may commit the Municipality to increase recurrent expenditure, which commits the Council's resources in the following financial year, without the prior approval of the Mayoral Committee.

- Refers to expenditures such as entering into lease or rental agreements e.g. vehicles, photo copiers or fax machines.

6.5. No Virement may be made where it would result in over expenditure. (Section 32 of MFMA)

6.6. If the Virement relates to an increase in the work force establishment, then the Council's existing recruitment policies and procedures will apply

6.7. Virements may not be made in respect of ring-fenced allocations

6.8. No virements are permitted in the **first three months** or the **final month** of the financial.

6.9. No Virement proposal shall affect amounts to be paid to another Department without the agreement of the Manager of the Department, as recorded on the signed Virement form. (Section 30 of MFMA).

7. Operating Budget Virements

7.1. Virements are not allowed to utilise special purposes budgetary allocations adopted by council as such and to which specific council recommendations apply (e.g. budget strategy for growth in repairs and maintenance provisions) and which result from specific resolutions adopted when adopting the budget, as virement sources.

7.2. Sound motivations should be provided for all virements, as provided for on pro forma virements documentation.

7.3. Specific virements limitations:

7.3.1. No virements are permitted between primary and secondary cost elements

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Transfers or adjustments falling outside the ambit of this policy must be submitted to the Budget adjustment process in terms of section 19 of the MFMA

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